

Message Text

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TAGS: EMIN, EINV, ETRD, BY, US

SUBJECT: SUCCESSFUL FIRST MEETING OF POTENTIAL NICKEL
CONSORTIUM

REF BUJUMBURA 339

SUMMARY. THREE DAY MEETING JUNE 20 TO 22 OF POTENTIAL
CONSORTIUM MEMBERS LEFT THEM EVEN MORE INTERESTED AT CONCLUSION
THAN AT START. MAJOR REMAINING UNCERTAINTY CONCERNS CERTAIN
CHEMICAL-METALLURGICAL ASPECTS OF PROJECT. ORGANIZATIONALLY,
CONSORTIUM NEEDS TO FIND MEMBER WITH NICKEL MINING AND
REFINING EXPERIENCE. SCHEDULE CALLS FOR END AUGUST CONSORTIUM
MEETING IN EUROPE TO APPROVE DRAFT CONVENTION FOR PRESENTA-
TION TO BURUNDI GOVERNMENT AND TO TAKE DECISIONS ON FEASI-
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BILITY STUDIES. SPONSORS WOULD LIKE TO LAUNCH ACTUAL

CONSTRUCTION WORK IN 1977, WITH PRODUCTION BEGINNING EARLY IN EIGHTIES. END SUMMARY.

1. IN ADDITION TO BURUNDI OFFICIALS AND TO TEMPELSMAN AND HIS AIDES (INCLUDING LAWYER THEODORE SORESENSEN), REPRESENTATIVES WERE PRESENT FROM FIRST NATIONAL CITY BANK OF NEW YORK, BANQUE LAMBERT OF BRUSSELS, ALLEGHENY LUDLUM STEEL OF U.S., BRGM (BUREAU OF GEOLOGICAL AND MINING RESEARCH) OF FRANCE, FERROSTAHL OF WEST GERMANY, EXPLORATION UND BERGBAU (A MINE EXPLORATION COMPANY SET UP BY KRUPP AND THYSSEN INTERESTS) OF WEST GERMANY, EGAM (AN ITALIAN CONSTRUCTION FIRM APPARENTLY SPONSORED JOINTLY BY AN I.R.I. AFFILIATE AND BY THE ANSTALDI GROUP), THE ROMANIAN GOVERNMENT, THE WORLD BANK, AND THE UNDP MINERALS TEAM IN BURUNDI. THE CAST OF PLAYERS IS THUS VERY STRONG IN POTENTIAL CONSUMERS (BOTH ALLEGHENY LUDLUM AND THE ROMANIANS WOULD COMMIT THEMSELVES IN A MAJOR WAY), WELL FIXED IN MACHINE SUPPLIERS AND CONSTRUCTION EXPERTS, ADEQUATELY COVERED IN NON-EQUITY FINANCING (I.E., IN BANK LOANS), JUST MINIMALLY SUPPLIED WITH ACTUAL MINING EXPERIENCE, AND COMPLETELY BARE IN METALLURGICAL AND REFINING, I.E., IN THE PRODUCING SECTOR.

2. ALL PRESENT AGREED THAT LAST IS SERIOUS DEFECT WHICH MUST BE REMEDIED BY RENEWED ATTEMPTS TO BRING IN FALCONBRIDGE OR INCO (INTERNATIONAL NICKEL) OF CANADA OR "LE NICKEL" OF FRANCE, BOTH FOR PRODUCTION EXPERTISE AND FOR ADDITIONAL CONTRIBUTION OF EQUITY CAPITAL. HOWEVER, IF THESE BIG COMPANIES CONTINUE TO INSIST THAT THEY HAVE ALL THE NICKEL ACTIVITY AND SUPPLIES WHICH THEY WANT, CONSUMPTION COULD AS LAST RESORT TURN TO PRODUCER SUCH AS "AMAX" TO SUPPLY ITS SERVICES ON A STRAIGHT CONTRACTUAL BASIS.

3. ALL VISITORS WERE VERY IMPRESSED BY WORK OF UNDP MINERALS TEAM IN BURUNDI AND AWAIT NEW REPORT (PROMISED IN WEEK) ON CHEMICAL ANALYSES OF ORES FOUND. EVEN THEN, SUCH REPORT WILL ONLY BE GUIDE TO ESTABLISHING MOST PROMISING POSSIBLE FRAMEWORK FOR NEXT ROUND OF FEASIBILITY STUDIES. CHIEF PROBLEM IS THAT CONSUMERS MUST KNOW WHAT KIND OF NICKEL BURUNDI CAN PRODUCE SO THAT OUTPUT CAN FIT INTO EXPECTED LIMITED OFFICIAL USE

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CONSUMPTION PATTERNS OF NEXT DECADES. FOR EXAMPLE, ALLEGHENY LUDLUM CONSIDERS COBALT NOW FOUND IN BURUNDI ORES TO BE AN IMPURITY WHICH WOULD ENORMOUSLY REDUCE UTILITY OF NICKEL FOR COMPANY. YET QUESTION IS POSED OF CHOICE AND COST OF REFINING PROCESS WHICH COULD SEPARATE OUT COBALT (AND ALSO MAKE IT SALABLE AS BY-PRODUCT). SIMILAR STUDIES WILL BE ESSENTIAL IN REGARD TO OTHER ANCILLARY METALS, SUCH AS PLATINUM, COPPER, AND EVEN IRON ORE.

4. WHEN CONSORTIUM MEMBERS NEXT MEET IN EUROPE LATE IN AUGUST, THEY WILL REVIEW THESE TECHNICAL PROBLEMS. TEMPELSMAN HOPES BY THEN TO HAVE GOTTEN MAJOR ENGINEERING FIRM, SUCH AS BECHTEL, TO PRODUCE OUTLINE OF FEASIBILITY STUDIES AND THEIR APPROXIMATE COST AND DURATION. WITH THIS IN HAND, TEMPELSMAN WILL TRY TO INTEREST CONSORTIUM MEMBERS IN INVESTING EIGHT TO THIRTEEN MILLION DOLLARS NEEDED FOR STUDIES, NOT RPT NOT COUNTING TWO MILLION DOLLARS BEING ALLOCATED BY UNDP FOR ITS FEASIBILITY WORK. TO HELP ENCOURAGE PRIVATE ENTERPRISE TO TAKE PLUNGE, TEMPELSMAN IS THINKING OF TRYING TO GET CONTRIBUTION OF ONE MILLION DOLLARS EACH FROM GERMAN, FRENCH, AND U.S. GOVERNMENTS TOWARD STUDY. (U.S. PORTION WOULD TAKE FORM OF AID OR EX-IM ALLOCATION, EVENTUALLY REPAYABLE AS LEGITIMATE PRE-PRODUCTION COST IF WHOLE PROJECT IS CARRIED OUT.) TEMPELSMAN HOPES THAT UNDP CAN CONCENTRATE ITS PART OF STUDY ON MUCH DENSER DRILLING PATTERN IN ORE BODIES THAN EFFECTUATED IN PAST TO ESTABLISH THEIR EXACT DIMENSIONS AND MINERAL CONTENT. HE WOULD USE SOME HIGHLY REPUTABLE LARGE COMPANY TO SUPERVISE ALL ASPECTS OF FEASIBILITY STUDY TO ENHANCE ATTRACTIVENESS OF PROJECT TO WOULD-BE INVESTORS, INCLUDING WORLD BANK.

5. OTHER WORK OF AUGUST CONSORTIUM MEETING WOULD BE TO APPROVE DRAFT CONVENTION PREPARED BY SORENSEN FOR PRESENTATION TO BURUNDI GOVERNMENT. TEMPELSMAN WILL TRY TO USE AS MODEL HIS AGREEMENT WITH ZAIRE ON HUGE COPPER-COBALT PROJECT IN LUBUMBASHI AREA, WHICH GIVES HOST GOVERNMENT CERTAIN GUARANTEES ON ANNUAL PRODUCTION PLUS TWENTY PERCENT SHARE OF PROFITS, WITHOUT REQUIRING ANY CAPITAL CONTRIBUTION. TEMPELSMAN SEES MAJOR PROBLEM IN CONVINCING WORLD BANK TO MAKE LARGE INFRASTRUCTURE LOAN IN AMOUNT AND RAPID TIME FRAME (EARLY 1977) ENVISAGED. HE IS AWARE THAT WORLD BANK WILL LIMITED OFFICIAL USE

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NOT LEND FUNDS FOR INFRASTRUCTURE ALONE WHICH ARE NOT TIED IN, AS BETTER ASSURANCE OF REPAYMENT, TO ACTUAL MINERALS OUTPUT. YET, HE KNOWS THAT PRIVATE INVESTORS WILL WANT FULL PAYOUT OF THEIR OWN INVESTMENT IN FIVE TO TEN YEARS (SINCE COMPETITIVE PROJECTS OFFER SUCH RATE OF RETURN). HIS PROPOSED SOLUTION IS TO INCLUDE WORLD BANK LOAN WITHIN TOTAL CAPITAL FUND, BUT TO GET BANK TO AGREE THAT ITS REPAYMENT WILL OCCUR IN TEN TO TWENTY YEAR PERIOD AFTER OTHERS HAVE RECOVERED THEIR INVESTMENT. WHEN BURUNDI FINMIN MPOZAGARA VISITS WASHINGTON FOR BANK-FUND MEETING IN SEPTEMBER, TEMPELSMAN WILL TRY TO ARRANGE SERIOUS BUSINESS MEETING WITH MCNAMARA.

6. IF VARIOUS HURDLES ARE OVERCOME, TEMPELSMAN ENVISAGES TERMINATION OF STUDIES AT END OF 1976 OR EARLY IN 1977.

THIS WOULD POSE PROBLEM OF FINAL INVESTMENT DECISIONS BY
CONSORTIUM MEMBERS IN ABOUT 18 TO 24 MONTHS. BOTH HE AND
BURUNDI OFFICIALS REALIZE THAT PROJECT COULD STILL FALL
THROUGH AND THAT, THEREFORE, IT WOULD BE PREMATURE TO PROD
U.S. GOVERNMENT TO DEFINE ITS ATTITUDE. NEVERTHELESS,
EVEN APART FROM POSSIBLE REQUEST TO AID TO JOIN IN FINANCING
FEASIBILITY STUDY, ALL CONCERNED ARE VERY CONSCIOUS OF
IMPORTANCE OF U.S.G. FAVOR IN TERMS OF BOTH EVENTUAL EX-IM
BANK CREDITS FOR EQUIPMENT PURCHASES AND OF SUPPORT WITHIN
GORLD BANK FOR LARGE LOAN CONTEMPLATED.
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